



RESTORING THE TRUST

FOR ALL GENERATIONS

Committee on the Budget
U.S. House of Representatives

Chairman Tom Price, M.D.

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PRINCIPLES FOR SAVING AND STRENGTHENING AMERICA'S HEALTH, RETIREMENT, AND ECONOMIC SECURITY PROGRAMS

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INTRODUCTION

Since the turn of the twentieth century, Americans have made commitments to one another within and across generations. These included maintaining a sturdy safety net for those in distress; providing health and income security for those in retirement; supporting families by expanding opportunities for homeownership, a college education, and the many other pursuits available in a prosperous nation; and leaving the next generation better off, with a robust and growing economy. These commitments supported a distinctly American aspiration: to foster a Nation where the greatest number have the greatest opportunity to reach the greatest success achievable in a fair and compassionate way – where the greatest number of American dreams may be realized.

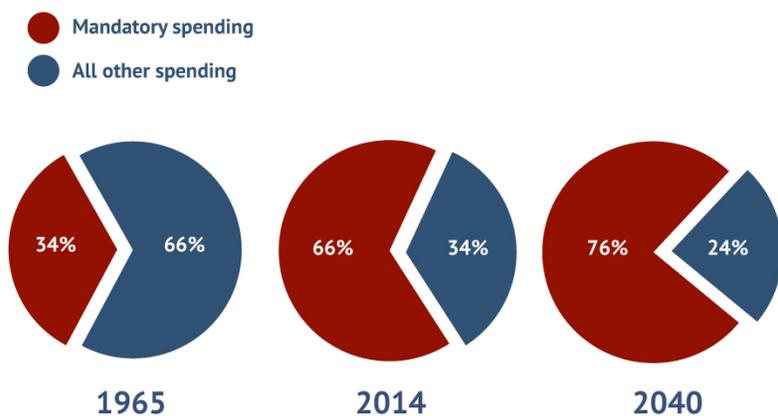
Regrettably, though, the government programs developed over the past eight decades to meet these worthy aims are now failing the very people they were intended to serve. They have burdened Americans' private lives with ever-more intrusive mandates and regulations, undermined the pursuit of self-sufficiency, smothered innovation, and distorted incentives to work, save, and invest. Moreover, their growing financial demands contribute to a budgetary outlook that promises relentless deficits and mounting debt, and devour ever-growing shares of public and private resources. Whatever one's priorities – whether national defense, education, medical research, infrastructure, or anything else – the government's unbalanced fiscal policies increasingly absorb the funding that would otherwise be available, and deprive policymakers of the flexibility even to choose priorities, let alone finance them.

“One of the great mistakes,” Milton Friedman observed, “is to judge policies and programs by their intention rather than their results.” The results are in: Americans have lost confidence that their government can fulfill its promises, and Washington's unsustainable budgetary outlook simply reflects in numbers the failures of its policies. Restoring the trust among America's generations requires a new approach and a new way of thinking about how to keep the Nation's commitments. Addressing this challenge is an imperative that cannot wait – and every American must be engaged in the discussion.

THE IMPACT ON GENERATIONS

The Federal Government’s major benefits programs – such as Medicare, Medicaid, and Social Security – employ what is known as *direct spending* (more commonly called “mandatory spending”).¹ Once such a benefits program is authorized, the payments flow automatically to

MANDATORY SPENDING GROWS OVER TIME



Source: CBO

eligible recipients and continue indefinitely, with no limit on total outlays and without regular congressional oversight. In other words, this typically open-ended form of spending is running out of control because it is *designed* to be unlimited. The practice is a major cause of the government’s looming debt problems. The dominance of this direct spending, coupled with the structural failures of the benefits programs it supports, threatens the well-being of multiple generations of Americans.

Young Americans (Children and Millennials)

For the first time, those now growing up in America face the prospect of fewer opportunities and greater challenges than prior generations. Today’s children and grandchildren face a tenuous future threatened by higher taxes, slower wage growth, and lower standards of living due to the Federal Government’s unrestrained spending. Even now, too many students find universities prohibitively expensive, while others take on excessive college loans. Too often, those entering the workforce fail to see real returns on their investments and are unable to climb out of debt. Many young adults are forced to delay reaching other important milestones, such as purchasing a first home, getting married, and starting a family. The next generation can no longer expect to achieve the American dream through the traditional formula of determination, hard work, and education.

Meanwhile, the government’s two principal retirement programs, Medicare and Social Security, are relentlessly approaching exhaustion despite historically high tax revenue. By the time today’s

¹ Although “mandatory spending” is the more common term, it is direct spending that has an actual definition in the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), which describes it as budget authority provided in law other than appropriations acts; entitlement authority; and the Supplemental Nutrition Assistance Program (formerly food stamps).

newborn child is able to vote, the Social Security trust fund will be insolvent.² When today's preschooler enters college, the Medicare trust fund will be insolvent. These conditions threaten the generational compact Americans have long maintained.

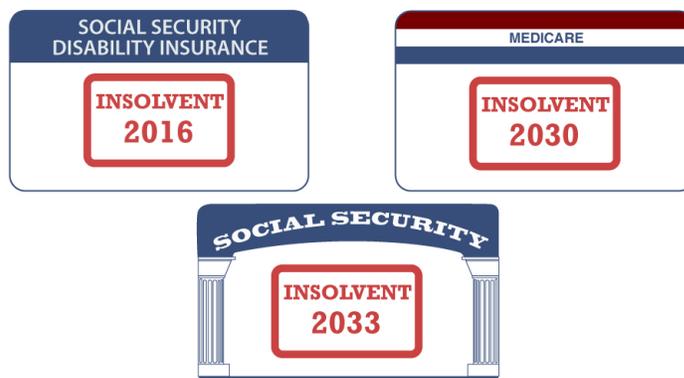
Families and Working-Age Americans

Every dollar the government takes out of Americans' pockets is a dollar no longer available for a family to support a child's education, to buy a new car, to pay the rent or mortgage, or take a family vacation. Every dollar the government borrows drains the pool of savings that would otherwise be available for investment in the long-term prosperity needed for working-age Americans to meet their goals, and diminishes confidence in their prospects for health and income security when they retire. These are real consequences for today's working-age Americans due to Washington's reckless fiscal policy.

The unchecked growth of national debt, compounded by the government's direct spending programs, already encumbers the economic recovery, slowing it to well below historical rates, limiting potential earnings and opportunities for those entering the workforce. Notwithstanding recent job gains and a declining unemployment rate, the number of Americans in the workforce has sunk below 63 percent – its lowest level in nearly four decades.³ That leaves more than 93 million Americans out of the labor force, an increase of roughly 10 million in the past 5 years.

Although part of the labor force decline is due to the aging and retirement of the baby boom population, labor force participation has declined among those 25 to 54 years old – a group that should be in its prime working years.⁴ Furthermore, compared with pre-recession levels, twice as many people are working part-time because they cannot find full-time jobs. This reflects not only the lack of opportunity in this economy, but also government policies such as the Affordable Care Act that create further disincentives to work.⁵

LOOMING INSOLVENCIES



Source: Social Security and Medicare Trustees

² Social Security's retirement trust fund is projected to be insolvent in 2033.

³ This figure, known as the labor force participation rate, refers to the number of people who are either employed or are actively looking for work.

⁴ Federal Reserve Bank of St. Louis, "Civilian Labor Force Participation Rate: 25 to 54 years," *Economic Research*, 2 July 2015: <https://research.stlouisfed.org/fred2/series/LNU01300060>.

⁵ Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024*, February 2014: http://www.cbo.gov/sites/default/files/45010-Outlook2014_Feb_0.pdf.

Meanwhile, the economy's potential for future growth is weakening, which poses two problems.⁶ First, most Americans' retirement plans, such as 401(k) and pension plans, will produce less value and therefore provide insufficient support for today's working-age Americans as they retire. Second, this will lead to increased reliance on Federal programs – specifically Medicare and Social Security – that were never designed to carry the entire weight of a person's retirement. As a result, the Federal health and income security programs currently available to older Americans will be unable to meet the needs of today's families and working-age adults upon retirement.

Americans at or Near Retirement

No other Federal programs serve as many people as Medicare and Social Security, or consume as much of the Federal budget – almost 40 cents of every dollar the government spends. With more than 10,000 baby boomers reaching retirement age every day, the commitments of these programs – intended to avert the threat of poverty in old age – continue to grow. Yet as currently structured, Medicare and Social Security cannot fulfill their promises for individuals in their 50s today, and definitely not for today's children. When today's 50-year-old reaches 70, some 80 million Americans will be eligible for Medicare and Social Security, but both programs will have reached insolvency.

Equally important, though less well recognized, is the growing role of Medicaid in supporting today's aging population, a program mainly intended for low-income individuals and families. According to the most recent actuarial report, 21 percent of Medicaid's Federal spending goes to elderly beneficiaries, and its long-term care spending – mostly for seniors – is projected to grow at about 6 percent per year.⁷ It is doubtful Federal or State budgets can accommodate this growing burden, leaving many seniors nowhere to turn when they need long-term care.

America's Most Vulnerable Citizens

Today, almost 15 percent of Americans, including one of every five children, live in poverty and depend on government for their most basic needs. More than 22 million households obtain food stamps.⁸ In 2014, 21.7 million students received free or reduced price lunches. Public housing and Section 8 programs served 2.75 million children. More than 45 million individuals relied on Medicaid or the State Children's Health Insurance Program [SCHIP] for their health care.

Regrettably, the government's safety net programs – intended to provide temporary assistance for individuals and their families – are failing the very people they were supposed to protect. For example, enrollment in Medicaid and SCHIP no longer guarantees access to the doctor or the necessary treatment a patient may need. Additionally, these programs often hinder upward mobility, and keep their beneficiaries dependent. In many instances, the benefit structures of these

⁶ Estimators at the Congressional Budget Office project gross domestic product will grow by an average of just 2.3 percent per year in the next decade, well below the historical average of more than 3.0 percent annually.

⁷ Department of Health and Human Services, *2013 Actuarial Report on the Financial Outlook for Medicaid*. This is the most recent version of the report.

⁸ The Supplemental Nutrition Assistance Program.

programs penalize work and marriage, weakening the family – the single most powerful institution for success.⁹

America’s most vulnerable individuals also stand to be the hardest hit in the event of a debt crisis, as the Federal Government would have to make stark, across-the-board cuts in their benefits in an economy too weak to fill the void.

Restoring the Trust

It is clearly immoral to continue heaping trillions of dollars of debt onto future generations solely because policymakers refuse to control spending. Beyond that, consider: What is the morality of committing seniors and low-income families to a costly, centralized health care strategy that intrudes on the personal decisions of patients and their doctors? Of promising retirement income that the government cannot provide? Of trapping the disadvantaged in a web of welfare programs that discourage self-sufficiency and instead bind them to government dependency? Of tying college students to years of crippling debt because of a government-run student loan program that drives up tuitions?

Restoring the trust among America’s generations requires positive solutions that stem from thinking differently about how to fulfill the Nation’s promises. It requires a national conversation, thoughtfully reassessing current approaches, leading to policy actions that ensure America’s commitments are met, today and in the future.

PRINCIPLES FOR POLICY SOLUTIONS

To say the Federal Government’s current budgetary course is unsustainable means *it will not be sustained*. The government’s mounting debt will eventually grow faster than the economy itself, absorbing increasing shares of national income and crowding out resources for both private investment and public programs. Over the next decade, the government will spend more than \$5.5 trillion solely on interest payments on the debt. By 2025, these payments are projected to exceed spending on national defense, Medicaid, education, transportation, or science. These conflicting demands will force change. Policymakers can either manage the transformation or stand by and watch as the government’s major programs, and fiscal policy itself, collapse.

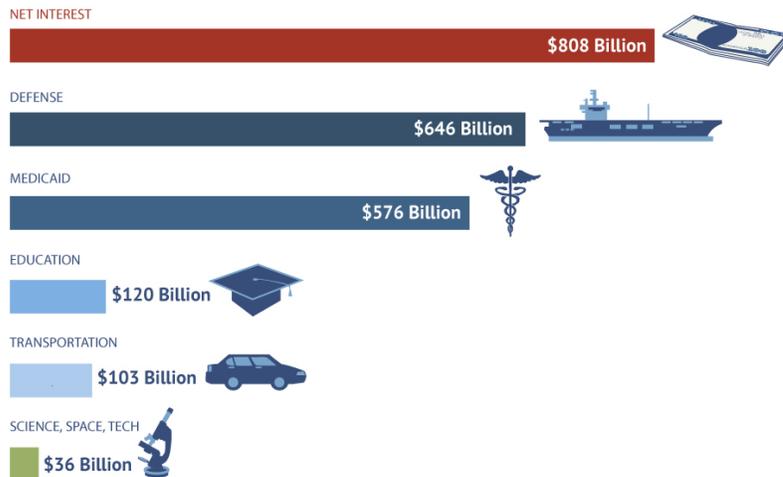
Yet addressing the problem is more than a matter of spending, taxes, deficits, and debt. Americans have supported the government’s extensive benefits programs out of a sense of moral responsibility. The sad truth, however, is that these programs – now the largest part of the Federal

⁹ C. Eugene Steuerle, The Urban Institute, “On Marginal Tax Rates and 21st Century Social Welfare Reform,” testimony to the Joint Hearing of the Subcommittee on Human Resources Committee on Ways and Means And Subcommittee on Nutrition Committee on Agriculture, 25 June 2015: <http://agriculture.house.gov/sites/repUBLICANS.agriculture.house.gov/files/pdf/Gene%20Steuerle%20Testimony%20062515%20HR%205%20WATERMARKED.pdf>.

budget – are betraying the very people they were intended to serve. It is not only the budget that demands a reassessment, but the ethics of public policy itself.

INTEREST VS. OTHER SPENDING

(In 2025 Under Current Law)



Source: CBO

Even without the looming fiscal crisis, the government's programs would warrant re-evaluation for these very reasons. That is why policymakers must fundamentally rethink the response to America's social challenges. The discussion below aims not to list a specific set of policy prescriptions, but to present some principles to help guide this re-examination.

Health Care Policy

The future of America's health care commitments is far from certain. With more than 70 million baby boomers retiring in the coming years, Medicare will strain Federal financial resources. Medicaid enrollee numbers are also swelling, even though the program severely underpays health care providers. Yet despite the frailty of Medicare and Medicaid, the Federal Government has now also promised to subsidize health care for millions of additional Americans with the passage of the Affordable Care Act. Within a decade, Federal spending for these three programs is projected to approach \$2 trillion a year, as the number of Americans enrolled in some form of government-run health coverage soars. On the current financial path, the government will have to either sharply constrain these programs and what they provide to their intended beneficiaries, or put very large sums on the country's credit card, which Congress repeatedly runs up to its limit.¹⁰

More troubling than the fiscal outlook, however, are the structural flaws and shortcomings of these health care programs. Sick individuals have difficulty getting appointments for care, new beneficiaries cannot find doctors, patients are losing access to their doctors of choice, and the cost

¹⁰ The government already has reached its statutory debt ceiling of \$18.1 trillion, which is about twice the limit in 2007. The Treasury Department can employ various options to prevent an actual breach of the limit for several months. These measures are expected to be exhausted by October or November, at which point Congress would have to raise or suspend the debt ceiling or leave the government unable to fulfill all its obligations, leading to payment delays, a default on government debt, or both. See Congressional Budget Office, *Federal Debt and the Statutory Limit, March 2015*.

of care is rising.^{11,12} Access to health care for those otherwise unserved is an essential thread of the national safety net, yet in many ways these programs are missing the mark. There is little point in expanding health coverage when the supply and quality of health *care* is inadequate.

Keeping the promise of health care services that are truly responsive and affordable requires a departure from the government-centered approach of the past several decades. The current strategy has created programs that presume to know what is best for patients across America, but instead restricts them to health programs that are on unsustainable paths.

As a first step, policymakers must shed the notion that the government can run health care from Washington. No centralized health care “plan” can replace America’s health care sector, and, in fact, any such plan would stifle ingenuity. Health care is the product of many players, interacting in dynamic ways: doctors, nurses, technicians, pharmaceutical companies, medical equipment makers, State and local government, and insurers, among others. Effective and efficient health care must draw from this diverse field of participants. It should restore decision-making to the people most directly affected by the choices, putting patients, families, and doctors in charge, not the central government’s bureaucracies. It should encourage greater flexibility in the design and pricing of health insurance policies, so insurers can tailor benefits to a wide range of individuals and families with diverse needs – precisely the opposite of Washington’s insistence on prescribing what types of insurance people need. It should promote innovation by lifting regulatory burdens, and encouraging the exploration of untried technologies, rather than directing research from Washington.

Retirement Security

Since its inception in 1935, the Social Security program has successfully provided retired and disabled citizens essential benefits corresponding to their contributions.¹³ Thus, it represents a compact between America’s working-age population and the Nation’s retired and most vulnerable citizens to ensure the well-being of all Americans.

That commitment is threatened, however, by long-developing demographic changes that are now taking hold. The U.S. population is aging, largely due to declining fertility rates and the otherwise positive phenomenon of increasing life expectancies. In 1950, 8 percent of the total population was 65 or older. That share grew to 12 percent in 2005, and in just two decades will swell to 20 percent.¹⁴ As a result, a shrinking percentage of workers will have to support a growing retired population. In 1945, 41.9 workers funded the benefits of one Social Security beneficiary; as of

¹¹ Dan Mangan, “Price Worries Persist for Obamacare Market Plans,” CNBC, 21 May 2015: <http://www.cnbc.com/id/102695851?Source=GovD>.

¹² Stephanie Armour, “U.S. Emergency-Room Visits Keep Climbing,” *The Wall Street Journal*, 4 May 2015: <http://www.wsj.com/articles/u-s-emergency-room-visits-keep-climbing-1430712061>.

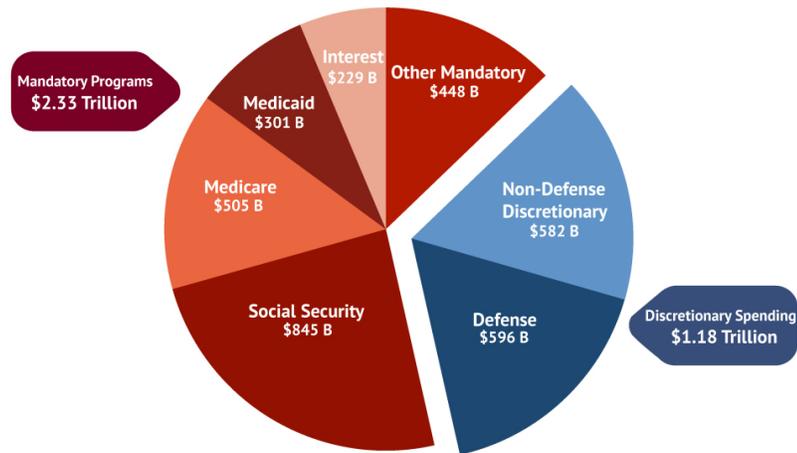
¹³ Social Security is formally called the Old-Age and Survivors and Disability Insurance [OASDI] Program.

¹⁴ United States Census Bureau, *An Aging Nation: The Older Population in the United States*, May 2014: <https://www.census.gov/prod/2014pubs/p25-1140.pdf>.

2010, the figure had shrunk to 2.9 workers for each beneficiary. The Social Security Administration projects the ratio will continue declining over time.¹⁵

As a result, Social Security’s retirement trust fund is approaching depletion, and – absent any structural changes to the program – the program will have sufficient tax income to pay only 77 percent of scheduled benefits in 2033.¹⁶ This translates to a 23 percent benefit reduction for retired and disabled citizens.

FY 2014 TOTAL SPENDING



Source: CBO

Clearly, the current structure of Social Security cannot redeem its longstanding promise of retirement security. The majority of the Nation’s working-age population is contributing to a program that will not be able to pay benefits commensurate with their contributions by the time they retire. Even now, the program’s disability insurance fund – which some early retirees use to protect their full-retirement-age benefits – is projected to reach insolvency next year, in 2016.¹⁷

Only fundamental structural reform can ensure that those at or near retirement, and disabled beneficiaries, receive the full support they deserve, and that the Nation’s young and working-age populations are contributing to a program that will be there for them in the future. Policymakers and thought leaders should explore the impact of Social Security’s regressive taxes on the labor market.¹⁸ They should consider a broader collection of policy options that encourage personal savings and private investment to reduce the current fiscal and demographic pressures. Meeting Social Security’s challenges requires innovative, positive solutions to ensure retirement security.

Income Support

The Federal Government runs more than 80 welfare programs that lack coordination in their efforts to help people escape poverty. Multiple programs across various departments, overlapping services, and differing benefit structures create significant penalties on work and marriage,

¹⁵ *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Trust Funds*, Table IV.B2, www.ssa.gov.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

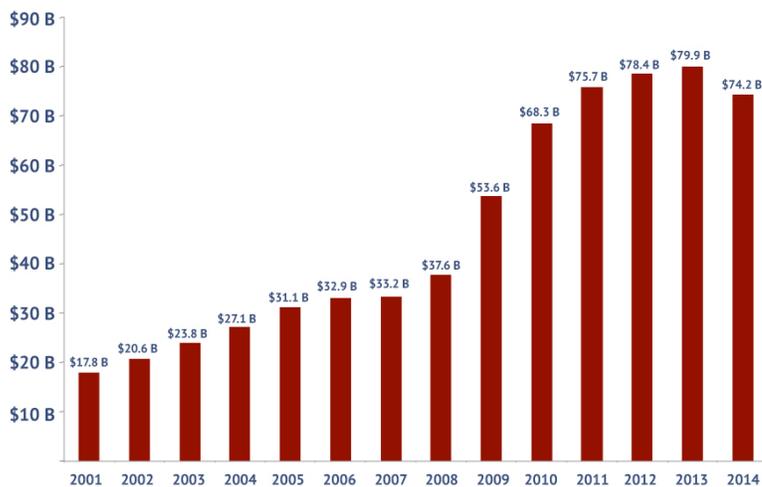
¹⁸ Social Security is financed by two flat payroll taxes levied on income up to a defined limit: the Federal Insurance Contributions Act tax, and the Self-Employed Contributions Act tax.

keeping many trapped in a cycle of poverty for years. While reforms during the 1990s helped many cash welfare recipients find work and escape poverty, they were limited in scope and affected only a small part of the safety net.

The goal of anti-poverty programs should be to increase self-sufficiency. The 1996 welfare reform law contributed to the largest sustained reduction in child poverty since the onset of President Johnson’s Great Society, and offers a model for reforming other welfare programs: increase State flexibility and innovation, eliminate improper payments, strengthen work incentives, and reduce marriage penalties.

A candidate for such reforms is the Supplemental Nutrition Assistance Program [SNAP] (formerly known as food stamps), which has grown fourfold since 2001 to become the Federal Government’s largest non-health means-tested program. A recent Congressional Budget Office report that included a discussion of greater State control over SNAP noted: “Given such

GROWTH OF SNAP SPENDING



Source: Department of Agriculture

authority, States might be able to define eligibility and administer benefits in ways that better serve their populations. Moreover, allowing States more flexibility in operating SNAP would result in more experimentation, and approaches that were successful in some States could be adopted by others.”¹⁹

Social scientists across the political

spectrum agree that children are better off with married parents. Yet today, more than 40 percent of children are born to unwed mothers,²⁰ and the structure of anti-poverty programs places harsh anti-marriage penalties on those who currently depend on these programs. Reducing these penalties is a major focus of improving poverty policy.

¹⁹ Congressional Budget Office, *The Effects of Potential Cuts in SNAP Funding on Households with Different Amounts of Income*, March 2015:

<http://www.cbo.gov/sites/default/files/cbofiles/attachments/49978-SNAP.pdf>

²⁰ Centers for Disease Control and Prevention, *Births: Final Data for 2013*, National Vital Statistic Report Volume 64, Number 1, 15 January 2015: http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf.

The 1996 welfare reform law established work requirements for the Temporary Assistance for Needy Families Program. Protecting these work requirements from efforts to weaken them, and expanding them to other programs, will allow more people to escape poverty.

Other Direct Spending Programs

While the major health care, retirement, and welfare programs account for most of Federal direct spending, numerous other programs across government also fall into this category. These range from Federal assistance for farming, to college tuition, to housing loans and flood insurance supplements.

A common thread among these direct spending programs has been their relentless mission creep. For each program, what began as a narrowly defined purpose gradually expanded over time. Policymakers identified genuine problems to be addressed: small family farmers faced drought, hail, or other weather catastrophes; low-income students found college prohibitively expensive; coastal homeowners could not acquire affordable flood insurance. For each need, eligibility criteria for the beneficiaries were set, and Federal taxpayer money began flowing. Instead of declaring success when a problem was addressed – or at least keeping these programs limited to helping particular beneficiaries – Congress largely did the opposite. Successive Congresses began broadening the scope of the programs, and thereby expanding their benefits.

Many of today's farm programs date back to the Great Depression era. Likewise, higher education programs can be traced to the Eisenhower and Johnson administrations. Neither area of Federal aid has the same purpose it originally had. President Reagan's famous quote that "a government bureau is the nearest thing to eternal life we'll ever see on this earth" rings true for these direct spending programs.

The government's student loan programs wrongly encourage students from low- and middle-income families to take on massive amounts of debt to attend college, and then more for law school or another graduate level degree. Faced with today's weak job market, and at times with degrees that have a lower return on investment than students might have anticipated, students can assume a debt load amounting to a mortgage, except they have no house to show for it. Nearly 14 percent of loan recipients default. Taxpayers also bear tremendous risk; Federal higher education assistance represented more than 70 percent of student aid in 2013 according to the College Board.²¹ Further, new research from the Federal Reserve Bank of New York finds that increasing student aid availability gives rise to higher tuition costs, which in turn increases demand among students for Federal aid.²² Faced with higher tuition and larger debt loads, students are done a disservice.

²¹ Lindsay M. Burke, The Heritage Foundation, "Student Loan Servicing: The Borrower's Experience," testimony to the House Banking, Housing, and Urban Affairs Subcommittee on Financial Institutions and Consumer Protection, 4 June 2014: http://www.heritage.org/research/testimony/2014/06/student-loan-servicing-the-borrowers-experience#_ftn5.

²² David O. Lucca, Taylor Nadauld, and Karen Shen, "Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs," Federal Reserve Bank of New York, Staff Reports Number 733, July 2015, http://www.newyorkfed.org/research/staff_reports/sr733.pdf.

Similarly, while the struggling family farmer often appears as the face of Federal agricultural assistance, large farms – which are more resilient and have greater capital and thus tolerance for risk – now account for the bulk of agriculture production. While it is projected to be lower this year, net farm income has seen historic highs in recent years. Moreover, median total farm household income has exceeded median U.S. household income every year since 1998.²³ Current farm programs distort farmers’ decisions about how to best use their land. Further, consumers wind up paying more than they should for milk, cheese, and sugar because of government-imposed limits on dairy production and quotas and tariffs on sugar, as part of U.S. agriculture policy.²⁴

Policymakers should rethink these aid programs, which contribute to the government’s unsustainable fiscal course – for the sake of both beneficiaries and taxpayers. For assistance to be available for truly needy farmers, students, and homeowners, today’s programs can be neither automatic nor open-ended. Federal policymakers should pursue innovative, market-based solutions that meet people’s needs by providing a strong, reliable safety net.

CONCLUSION

Building consensus to advance positive solutions is the next step toward securing the promises of the Federal Government’s major benefits programs. This requires new ways of thinking about how to fulfill these promises in a fiscally sustainable way, and developing a set of principles to guide the process. As described above, those principles should include expanding choices for individuals and families; restoring market forces and fostering competition that will encourage innovation and restrain costs; encouraging self-sufficiency rather than prolonged dependency; and engaging the spirit of federalism, allowing States and localities greater flexibility to meet the particular needs of their populations. Such steps can greatly contribute to restoring the trust in America’s promises for all generations.

Principles for Saving and Strengthening America’s Health, Retirement, and Economic Security Programs

- *Expand Choices*
- *Restore Market Forces*
- *Foster Competition*
- *Provide Flexibility*
- *Promote Innovation*
- *Encourage Self-Sufficiency*
- *Engage the Spirit of Federalism*

The Committee on the Budget welcomes insights from all quarters to advance this conversation. Every American should be involved in this conversation. Those who are interested are invited to visit Budget.House.Gov/RestoringTheTrust and send their thoughts by 31 August 2015 to: RestoringTheTrust@mail.house.gov.

²³ Economic Research Service, U.S. Department of Agriculture, *Farm Operators’ Household Income Compared With U.S. Household Income*, 25 November 2014: <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/income-and-wealth-in-context.aspx>.

²⁴ “Farm Bill: Ripe for Reform,” Heritage Foundation Fact Sheet #116 on Agriculture, 20 May 2013: <http://www.heritage.org/research/factsheets/2013/05/farm-bill-ripe-for-reform>.